

Message Text

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14

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-11 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 NSCE-00

SSO-00 USIE-00 INRE-00 SAJ-01 /104 W
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O R 091737Z FEB 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 4543

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY OTTAWA

AMEMBASSY LISBON

AMEMBASSY ATHENS

AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY HELSINKI

RUE KO/AMEMBASSY TOKYO 175

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USMISSION GENEVA

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PARIS FOR RFDPC

E.O. 11652: N/A

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TAGS: EFIN, SP

SUBJ: DEVALUATION OF THE PESETA

1. GOS DEVALUED PESETA BY APPROXIMATELY 10 PER CENT AGAINST DOLLAR, EFFECTIVE FEB 9 WITH SELLING RATE FOR DOLLAR GOING TO 66.60, BUYING RATE TO 66.54. THESE ARE BANK OF SPAIN INTERVENTION RATES. CLOSING RATES FEB 6 WERE 60.00 AND 59.84.

2. ACCORDING TO MINISTRY OF FINANCE OFFICIAL, DEVALUATION WAS DESIGNED TO CUT OFF INCREASING SPECULATION AGAINST PESETA AS A RESULT OF SPAIN'S BLANCE OF PAYMENTS SITUATION AND RECENT PRESSURE ON LIRA. THIS WAS IMMEDIATE CAUSE OF ACTION, BUT GOS ALSO EXPECTS AN IMPROVEMENT THIS YEAR OF ABOUT \$500 MILLION IN BALANCE OF PAYMENTS PICTURE AS A RESULT OF DEVALUATION, MORE FROM INCREASED TOURIST INFLOWS AND WORKERS' REMITTANCE THAN FROM TRADE. IN FACT, MINFIN OFFICIAL SAID LITTLE OR NO INCREASE IN VOLUME OF EXPORTS WAS EXPECTED THIS YEAR AS RESULT OF DEVALUATION. IN 1977 AND 1978, HOWEVER, SOME POSITIVE RESULTS WERE EXPECTED. SOME REDUCTION IN IMPORTS OF LUXURY GOODS IS EXPECTED THIS YEAR, BUT THIS SHOULD NOT BE PARTICULARLY SIGNIFICANT.

3. GOS CALCULATES DEVALUATION WILL DIRECTLY ADD 1.4 PERCENT TO PRICE DEFLATOR IN 1976 AS RESULT OF HIGHER IMPORT PRICES. INDIRECT EFFECTS ON PRICES IN GENERAL AND ON COST OF LIVING INDEX NOT EXPECTED UNTIL 1977. MINFIN OFFICIAL SAID SUCCESS OF MOVE WILL BE MAINLY DEPENDENT ON GOVERNMENT'S ABILITY TO CONTROL WAGE DEMANDS WHICH HE RECOGNIZED AS A BIG QUESTION MARK. HE NOTED THAT A 14 PER CENT DEVALUTION IN 1967 RESULTED IN PRICE INCREASE OF ABOUT 2.6 PER CENT AND FELT A 10 PER CENT DEVALUTION NOW NEED NOT BE AS INFLATIONARY AS MANY THOUGHT.

4. GOS RAN TRADE DEFICITS OF \$8.3 AND \$8.5 BILLION AND CURRENT DEFICTIS OF \$3.1 AND \$2.9 BILLION IN 1974 -,\$ 1975, RESPECTIVELY. FOREIGN DEBT--PUBLIC AND PRIVATE-- INCREASED CONSIDERABLY DURING THESE YEARS AND IS NOW ABOUT \$8.7 BILLION. DEVALUTAION, IT IS ESTIMATED, WILL REDUCE CURRENT DEFICIT TO SOME \$2.5 BILLION OR BELOW IN 1976. RATE OF INCREASE IN COST OF LIVING HAS DECLINED CONSIDERABLY IN RECENT MONTHS TO ANNUAL RATE OF ABOUT 11 PERCENT. COST OF LIVING ROSE 17.9 PER CENT IN 1974 AND ABOUT 14.2 PERCENT IN 1975.

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5. EMBASSY TRANSLATION OF BANK OF SPAIN STATEMENT ON DEVALUATION FOLLOWS: QUOTE. IN RECENT WEEKS FOREIGN EXCHANGE MARKETS HAVE BEEN SUBJECTED TO STRONG PRESSURES CULMINATING IN THE SUSPENSION BY THE BANK OF ITALY OF ITS INTERVENTION IN THE MARKET AND FORCING OTHER CENTRAL BANKS TO UNDERTAKE MASSIVE INTERVENTIONS TO SUPPORT THEIR CURRENCIES. GIVEN THIS SITUATION, TO AVOID SPECULATIVE MOVEMENTS AND TO DEFEND THE PESETA FROM

THE RISKS THAT SUCH MOVEMENTS COULD CAUSE, THE BANK OF SPAIN HAS
CHANGED ITS INTERVENTION RATES IN THE FOREIGN EXCHANGE MARKET
AS OF FEBRUARY 9, SETTING THE RATE FOR THE PESETA WITH RESPECT
TO THE DOLLAR AT 66.54 (BUYING) AND 66.60 (SELLING). UNQUOTE.
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